



Judicial Council of California

Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Policy No.
Page

FIN 11.01
1 of 15

AUDITS

POLICY NUMBER: AOC FIN 11.01

Original Release Date:

April 1, 2001

Effective Date:

September 1, 2010

Revision Date:

October 7, 2009



Audits

1.0 Table of Contents

(Original 8/01)

- 1.0 Purpose
- 2.0 Policy Statement
- 3.0 Table of Contents
- 4.0 Application
- 5.0 Definitions
- 6.0 Text
 - 6.1 Audit Rights
 - 6.2 Types of Audits
 - 6.3 Audit Support
 - 6.4 Audit Findings and Issue Resolution
- 7.0 Associated Documents

2.0 Purpose

(Original 8/01)

The purpose of this policy is to establish uniform guidelines for the trial court to follow prior to, during, and after the completion of audits conducted by governmental units or other organizations with audit rights over court operations and finances.

3.0 Policy Statement

(Original 8/01)

There are many legal requirements and restrictions surrounding the use of public resources that can lead to audits of trial court operations and finances. The court shall, as part of its standard management practice, conduct its operations and account for its resources in a manner that will withstand audit scrutiny. During an audit, the court shall fully cooperate with the auditors to demonstrate full accountability, efficient use of public resources, and compliance with all requirements. Substantiated audit findings shall be investigated and corrected in a timely fashion.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 3 of 15
--	---------------	--

4.0 Application

(Revised 9/10)

This policy applies to all trial courts.

5.0 Definitions

(Revised 9/10)

Refer to the Glossary for the following key terms used in this policy.

Agreed Upon Procedures Review

American Institute of Certified Public Accountants (AICPA)

Audit(s)

Compliance Audit(s)

Financial Audit(s)

**Fiscal Year-End Generally Accepted Accounting Principles (GAAP)
Reports**

Generally Accepted Auditing Standards (GAAS)

Generally Accepted Government Auditing Standards (GAGAS)

Independent Audit(s)

Internal Audit(s)

Performance Audit(s)

Questioned Cost

Single Audit Act (SAA)

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 4 of 15
--	---------------	--

6.0 Text

6.1 Audit Rights

(Original 8/01)

The financial records, internal controls, regulatory compliance and other aspects of the trial court's operations are subject to audit by various entities. The rights of various government units to audit the court's operations and finances are discussed below.

6.1.1 Administrative Office of the Courts (AOC)

(Revised 9/10)

1. Government Code (GC) 77009(h) authorizes the Judicial Council, or its representatives, to perform audits, reviews, and investigations of trial court operations and records wherever they may be located.
2. To assure that the trial court is managing its resources effectively and efficiently, and is also able to carry out its function, the AOC may conduct periodic audits of the court, through the use of internal auditors or independent contractors.
3. The scope of AOC internal audits may include, but is not limited to, reviews and audits of court finances, procedures, internal controls, compliance with rules and regulations, operations, and performance to standards.
4. A primary role of internal auditors is to ensure that the system of internal control is adequate and functioning as designed, and to help management in the effective and efficient discharge of their responsibilities. The AOC has established an Internal Audit Services Unit (IAS) as a key component of the trial courts' internal control structure. The scope of IAS's activities may include, but is

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 5 of 15
--	---------------	--

not limited to, financial, performance, and compliance audits and reviews.

5. The AOC (IAS) Unit should be notified by the trial court of any and all audits or audit-related activities, whether initiated by the court or at the request of other agencies. When notified by a trial court of a request received to audit court records by any other agencies or entities, the Manager of the AOC IAS Unit will coordinate with the court to provide an appropriate response. The trial courts should coordinate these activities with the AOC Manager of IAS.
6. The AOC may also authorize independent audits of individual trial courts or the state trial court system as a whole. Independent audits are conducted by outside accounting firms that specialize in examining the operations of government and business entities. The AOC may authorize the performance of a financial audit, performance audit, agreed upon procedures review, or any combination thereof.
7. Under GC 77212 (d) the Judicial Council may also audit service contracts between the trial courts and their counties to ensure that the amounts of any indirect or overhead costs are individually stated, together with the method of calculation of the indirect or overhead costs, and to determine the reasonableness of the indirect or overhead costs charged to the trial court.

6.1.2 State of California (Revised 9/10)

1. Under GC 68103 and 68104 the State Controller's Office must check the reports and records received regarding the transmittal of fines and forfeitures submitted to it. Whenever the state is legally entitled to receive any portion of any money, forfeited bail or fines received by a judge of any court, the records kept by any judge are open to

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 6 of 15
--	---------------	--

public inspection, and may be checked by the State Controller, the Attorney General, or the district attorney of the particular county.

2. Under GC 77206(c) the Legislature may request the State Controller's Office to perform financial and fiscal compliance audits of the reports of court revenues and expenses. The Controller shall report the results of these requested audits to the Legislature and the Judicial Council.
3. In addition, the Bureau of State Audits is authorized by the state under the federal Single Audit Act to audit the trial court regarding its use and accounting of federal grant funds (Sub-section 6.2.3 discusses grant audits in more detail). The Bureau of State Audits is also authorized to audit the trial courts because court financial information is reported in the State Comprehensive Annual Financial Report (CAFR).
4. The AOC Manager of IAS must be informed when the trial court is notified of the state's intention to conduct any audit or review.

6.1.3 County Government

Since the passage of Assembly Bill 233, the county no longer has audit rights over the trial court. Court operations are now primarily funded by the state. If the court conducts enhanced revenue collection and distribution operations on behalf of the county, the county may request an audit of these activities.

6.1.4 Trial Court Management

Prior to engaging independent auditors, consultants, or other professionals to conduct any compliance audit or agreed upon procedures review, external financial audit, or performance audit of the court, the trial court must consult with the AOC Manager of IAS.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 7 of 15
--	---------------	--

6.2 Types of Audits

6.2.1 Financial Audits

(Revised 9/10)

1. The purpose of a financial audit is to provide reasonable assurance that the court's financial statements, specified elements, accounts, or items of a financial statement, are reliable. Financial statements present management's assertions regarding the court's financial position, results of operations, and cash flow. The audit provides an independent basis for relying on the court's assertions.
2. Auditors conducting a financial audit should comply with relevant standards. Auditors must also determine the appropriate procedures to utilize in the performance of their testing. These procedures include:
 - a. Inspection of relevant documents;
 - b. Observation of employee performance;
 - c. Inquiry about policies, procedures, transactions and events;
 - d. Confirmation of balances and transactions; and
 - e. Performance of analytical procedures.
3. The auditor's goal is to obtain reasonable, but not absolute, assurance that the court's financial statements are fairly presented.

6.2.2 Performance Audits

(Revised 9/10)

1. Performance audits are also called efficiency and effectiveness audits, compliance audits, and operations audits. The scope of a performance audit is typically narrower than the scope of a

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 8 of 15
--	---------------	--

financial audit and may be confined to a particular program, department, process, or other aspect of court operations.

2. The purpose of a performance audit is to determine if the court is conducting its operations in the most economic and efficient manner and if programs are achieving their intended purposes or objectives, and meeting established standards. An important part of the auditor's task is to identify through inquiry and review what standards exist that establish efficient and effective performance for the operations he or she is reviewing.

6.2.3 Federal Grant Audits (Original 8/01)

1. A portion of the trial court's operating budget comes in the form of federal grants, which may be awarded by several agencies. For many years, the court was subject to the audit requirements of each granting agency. Sometimes multiple audits were performed by different audit teams, each of which examined the same records and internal controls according to differing and conflicting audit standards. To resolve this problem, the federal Single Audit Act was enacted in 1984 and amended in 1996, to replace multiple grantor audits with a single audit that addresses the requirements of all federal grantor agencies.
2. The Single Audit Act requires auditors to:
 - a. Determine if the supplementary schedule of expenditures of federal awards prepared by the court is fairly presented in relation to the court's financial statements.
 - b. Test internal controls and the court's compliance with federal award program requirements.
 - c. Audit at least half of all federal program awards as "major programs" as defined by the act. If the court has expended less

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 9 of 15
--	---------------	--

than \$100 million in federal awards, a major program is one that accounts for the greater of \$300,000 or 3% of federal awards, and which does not meet the criteria for a “low risk” program. A low risk program is one that has been audited as a major program within the past two years and for which there have been no audit findings. In addition, programs must be considered to be major if they are formally designated as such by a federal grantor agency.

- d. For each major program, the auditor must:
 - i. Gain an understanding of the internal controls in place to assure compliance and then test those controls.
 - ii. Render an opinion as to whether the court complied with laws, regulations and contract provisions for grants that could have a direct and material effect on each major program.
 - iii. Consider materiality separately for 14 compliance categories.
3. In concert with the Single Audit Act, The Office of Management and Budget has issued Circular A-133, which sets forth standards designed to obtain consistency and uniformity in audits conducted of state and local governments that expend federal grant awards. The circular may be found at www.whitehouse.gov/omb/circulars. The following paragraphs highlight some of the important topics addressed in the circular.
4. The trial court is responsible for preparing financial statements for the grant program that include, at a minimum, a schedule of expenditures of grant funds for the program and notes that explain the significant accounting policies used in preparing the schedule, a summary schedule of prior audit findings, and a corrective action plan.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 10 of 15
--	---------------	---

5. The auditor is responsible for:

- a. Performing an audit of the financial statements in accordance with generally accepted government auditing standards (GAGAS).
- b. Gaining an understanding of the internal controls that are in-place and testing those controls.
- c. Determining whether the trial court is in compliance with applicable laws, regulations, and grant agreements.
- d. Following up on prior audit findings.
- e. Preparing combined or separate reports that include:
 - i. An opinion regarding whether the financial statements are presented fairly in all material respects.
 - ii. A report on internal control related to the grant program.
 - iii. A report on compliance including an opinion regarding trial court compliance with applicable laws, regulations, and grant agreements.
 - iv. A schedule of findings and questioned costs.

6. Federal grant awarding agencies are responsible for:

- a. Identifying federal awards made by informing each recipient of the Catalog of Federal Domestic Assistance (CFDA) number and title, award name and number, and award year.
- b. Advising recipients of the requirements imposed upon them by federal laws, regulations, and grant agreements.
- c. Ensuring that audits are completed and reports are received in a timely manner.

(Revised 9/10)

- d. Providing technical advice to auditees and auditors.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 11 of 15
--	---------------	---

- e. Issuing a management decision on audit findings within six months of receipt of the audit report and ensuring that the recipient takes timely and appropriate corrective action.
- f. Providing annual updates of Circular A-133.

6.3 Audit Support (Original 8/01)

1. Generally accepted auditing standards (GAAS) and GAGAS require auditors to study and evaluate the trial court's system of internal accounting controls to determine the type and extent of audit procedures to be performed. A system of internal controls consists of the measures employed to safeguard the trial court's assets, ascertain the accuracy and reliability of the entity's accounting data, promote operational efficiency and encourage compliance with policies and procedures.
2. GAAS and GAGAS also require that sufficient competent, evidential matter be obtained through inspection, observation, inquiries and confirmation to allow a reasonable basis for an opinion regarding the records and operations under examination.

(Revised 9/10)

3. The Court Executive Officer, or a designee of the Presiding Judge, shall be the primary point of contact for all auditors examining the operations and records of the court.
4. The AOC Manager of IAS must be notified in advance by the Court Executive Officer, or designee, of any impending audit. The AOC Manager of IAS may, after consulting with the court, elect to provide support to assist the trial court during the audit.
5. The trial court shall cooperate fully with the auditors' requests for information. Auditors shall be provided access to trial court records,

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 12 of 15
--	---------------	---

files, policies, procedures, computer systems, and personnel for the purpose of gathering information that is within the nature and scope of their audit assignments.

6. The trial court shall not withhold relevant information, misrepresent any fact or mislead auditors.

6.4 Audit Findings and Issue Resolution

(Revised 9/10)

6.4.1 Exit Meeting

At the conclusion of field (onsite) activities, auditors must hold an exit meeting with court representatives to present preliminary audit findings and discuss issues, reportable conditions, material weaknesses, or unacceptable risk levels discovered during the audit. The trial court shall use the exit meeting(s) opportunity to provide additional information, clarify questionable items and attempt to resolve the issues prior to the issuance of the audit report. If necessary, additional reasonable time should be requested to further research the auditor's findings.

Periodically during the course of the audit (frequency to be determined by the court) the court will be kept informed of all potential issues that have been identified. The standard Audit Work Timeline located in the Audit Resources section of Serranus; see the following link <http://serranus.courtinfo.ca.gov/programs/finance/audit.htm> provides the timeline requirements associated with the audit process.

6.4.2 Audit Reports

1. There are three common reports associated with audits of public entities such as the trial court:

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 13 of 15
--	---------------	---

- a. The auditor's report on the fair presentation of the financial statements, specified elements, accounts, or items of a financial statement.
 - b. The auditor's report on compliance and internal control over financial reporting based on an audit of the financial statements or accounts.
 - c. The auditor's report on compliance and internal control over operations applicable to each major program of the trial court.
2. Auditor's reports on compliance and internal controls typically include a separate section that lists the auditor's findings, which provide information on specific weaknesses or instances of noncompliance. The auditor often provides specific recommendations for corrective actions to be taken by management to resolve the weakness or noncompliance issue.
 3. When an auditor discovers an expenditure that may not be allowed under the requirements of a federal grant, the expenditure is listed as a questioned cost. Questioned costs may ultimately be rejected by the granting agency, in which case the court must refund them. Questioned costs that exceed \$10,000 must be reported under the Single Audit Act.

6.4.3 Report Distribution

In addition to the auditor's standard distribution of audit reports, the trial court shall assure that a copy of any audit report is delivered to the AOC IAS Unit for audits not conducted by, or under the supervision of, IAS.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 14 of 15
--	---------------	---

6.4.4 Corrective Action

1. In taking corrective action, it is the responsibility of the trial court to take swift corrective action to improve its practices in areas where auditors find deficiencies, reportable conditions, material weaknesses, or unacceptable levels of risk.
2. If it is perceived that the required corrective actions will materially impact court operations and finances, the trial court shall consult the AOC prior to engaging in any such actions. Trial court management shall have the discretion to consider mitigating factors and provide written justification to the AOC IAS Unit for not correcting specific deficiencies. The IAS Unit may accept the trial court's argument for not instituting improved practices or it may choose to assist the trial court in developing and implementing corrective actions. While the trial court shall always strive to improve on its system of internal controls, the costs of implementing court policies, procedures and internal controls should not exceed the value of the benefits they provide.

6.4.5 Subsequent Audits

(Original 8/01)

1. Auditors routinely conduct follow-up audits to determine whether appropriate corrective actions have been taken with respect to the findings of previous audits. During the subsequent audits, auditors will determine whether the corrective actions taken, if any, have resulted in the desired changes, or whether management has acknowledged the risks of not taking corrective actions.
2. The Single Audit Act requires preparation of a schedule that presents the status of corrective actions taken on audit findings from previous years.
3. The trial court shall ensure that all reported conditions be either corrected or adequately justified prior to any scheduled follow-up audit.

Trial Court Financial Policies and Procedures	Audits	Policy No. FIN 11.01 Page: 15 of 15
--	---------------	---

7.0 Associated Documents

(Original 8/01)

None